

**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 200554**

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In the Matter Of

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Amendment of Part 36 of The
Commissions Rules And
Establishment of a Joint Board

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

CC Docket No. 80-286
CC Docket No. 96-45

**COMMENTS OF ITCs, INC. IN RESPONSE TO THE COMMISSIONS
REQUEST FOR FURTHER COMMENT ON SPECIFIC QUESTION IN
UNIVERSAL SERVICE NOTICE OF PROPOSED RULEMAKING**

August 2, 1996

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EXECUTIVE SUMMARY

ITCs, Inc., an economic cost consultant to rural telephone companies is responding herein to the questions raised by the Federal Communications Commission at the request of Federal - State Joint Board Staff in their request for Further Comment On Specific Questions In Universal Service Notice of Proposed Rulemaking, CC Docket 96-45, Released July 3, 1996. The following is a summary of ITCs' comments

First, the Comments of ITCs, Inc. in response to The Commission's Notice Of Proposed Rulemaking And Notice of Inquiry, filed April 12, 1996, offered a mechanism which provides for the distribution of universal service support. The mechanism is simple, resolves all of the issues raised concerning the present Universal Service Fund, permits the use of actual costs in rural areas and proxy costs in urban areas, provides for comparable rates, eliminates all implicit support and, in all other aspects, complies with provisions of the Telecommunications Act of 1996. Further, a key element in the mechanism is a usage factor that adjusts costs in recognition of lower levels of rural usage and, as usage is stimulated, allows for a corresponding reduction in Universal Service Fund requirements. Finally, the mechanism resolves many of the issues raised by the 72 questions ITCs is responding to in this filing. Accordingly, the description of that mechanism is incorporated herein by reference and is referred to as "The Plan".

Concerning Definitions Issues, it is the position of ITCs that "affordability " can only be determined at the individual Exchange Carrier or service area level. This is due to the complexity and diversity of factors that determine affordability. The only definition that should emerge from these proceedings is that affordability is the price of services above which customers will be forced to leave the network. Therefore, the focus should be on responsible levels of subscribership, the definition of which will determine affordability.

Similarly, a singular definition of basic and advanced services will not be applicable at any one point in time to all locations in the Nation. Here again, basic objectives of services and service quality should be established. From that point on, the needs of customers in each service area will dictate the core services applicable to that area. As provided for in the in Act, such an approach will allow for the ever evolving definition that the pace of current technology and the 1996 Act permit.

The Schools, Libraries and Health Care Providers considerations in the 1996 Act are extremely important to rural America as well as to the whole of the Nation and require careful and considered deliberation. Services provided under these provisions should be for the advancement of the institution involved exclusively with funding directed to the providing Local Exchange Carrier as a separate component but within the overall scope and administration of universal service support. The provision of this element of support should be coordinated with all other forms of support where applicable and should be provided for using the same principles applicable to all forms of support, i.e., pro-competitive, explicitly defined, subject to exemption and eligible carrier requirements. In this manner, if the basic universal service mechanism is accomplishing its intended objectives, then the provision of support for services to these

institutions will be a natural extension of the basic mechanism.

The current high-cost support mechanism has served this Nation well over the past decade of transition toward a competitive environment. While there are areas where time and the evolution of the industry dictate the need for some modifications, the basic concept, the flow of funds and the objectives clearly represent a platform from which the industry can proceed in the continuing quest for universal service. Simply stated, the process has worked and should be retained to the extent it can serve the future, particularly in rural America.

Given the present concept as a starting point, the funding mechanism must be changed such that all who benefit from the policy of universal service contribute to the process. Further, the process must be expanded to include all forms of support; there should be no implicit forms of support remaining when the results of current deliberations are codified. The process must also be expanded to include the rural and high cost areas served by large Exchange Carriers who must remain free to compete in their urban low cost markets. It may well be that a bifurcated approach is necessary; however, should that be the case, both approaches must provide comparable results.

Finally, universal service support must be provided on a current basis; the existing practice of basing payments on two year old data is not appropriate given the speed and cost of technological change, the convergence of the industry and the transformation in telecommunications public policy. This can easily be accomplished by using estimates which are subsequently subject to true-up when actual data becomes available. The estimation skills of the industry have certainly proven to be such that no one will be prejudiced by such an approach.

The issue of proxy model usage is of great concern to ITCs and the rural telecommunications community. Given the wide diversity between and within rural serving areas, any attempt to find a surrogate that could be considered applicable for the purpose of revenue flows will only result in inconsistency and inequity. Given the enormous dependency on support, entrusting a process that is based on a model and not actual costs is not prudent for either the provider or recipient of support. At this juncture in the process, the record simply does not support the ability of proxies to ensure "specific and predictable support....". Further, the use of proxies does not ensure that funding is being used for its intended; in fact, it only opens doors to the arena of manipulation. It is only through the use of actual costs that there is assurance that all participants are operating in a fair, equitable and consistent environment. Finally, both models use either a Census Block or a grid as a basic costing area yet Section 214 (47 U.S.C. 214 (e) (5)) defines a service area as a study area for rural telephone companies. The use of both definitions in a bifurcated approach will result in disparate results.

ITCs' examination of the two models presented for consideration indicate well intentioned efforts to determine and quantify cost causative conditions. In those reasonably and consistently populated areas served in large part by larger Exchange carriers, a model might have reliability and validity. But then there is eastern Montana where 18 miles between adjacent neighbors is not uncommon; or the dry sands of the San Luis valley of Colorado which is home to few scattered farmers eking a living out of an inhospitable land; or the Native American living

at the bottom of Grand Canyon. ITCs' staff has not been able to determine how any model can account for these situations.

The same reservations exist with the concept of competitive bidding. While the concept is a cornerstone of the free enterprise system, bringing it to the forefront of an industry in the middle of transition from a tightly regulated monopoly to an environment of free and open competition can only be experimental at best and a concept fraught with risk particularly in rural, high cost areas. In addition, in many rural areas the construction cycle from establishing the need, through engineering, financing, ordering, construction and conversion can take several years. The introduction of competitive bidding would disrupt the process to the point that the ability to provide or upgrade services will be severely impaired. Absent "predictable" support, no prudent investor or Exchange Carrier management will proceed with construction given the potential uncertainty of a bidding process. Accordingly, great care must be taken if the concept is to move forward.

In conclusion, the 1996 Act provides outstanding opportunities to further the provision of universal service and to ensure that universal service objectives can be achieved in areas served by rural telephone Exchange Carriers. To design, develop and implement mechanisms that meet the requirements of the 1996 Act requires taking the best from the past, adding those concepts that are required, testing the process to ensure the results will meet expectations and development of an appropriate schedule for implementation. To a large degree, what is required can be accomplished through implementation of The Plan referenced above.

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ITCs, Inc., an economic cost consultant to independent telephone companies serving America's rural areas, including Chariton Valley Telephone Company, Columbine Telephone Company, Cunningham Telephone Company, ETEX Telephone Cooperative, Mokan Dial, Inc. - Kansas, Mokan Dial, Inc. - Missouri, South Central Telecommunications of Kiowa, South Central Telephone Association - Kansas, South Central Telephone Association - Oklahoma, Steelville Telephone Exchange, Inc. Tri-- Country Telephone Association, Inc., TCT West, Inc. and Wiggins Telephone Association, by counsel, respectfully respond to the questions as follows:

Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

To assume that present day rates can be deemed affordable simply because they are the current rates is not realistic or appropriate. Often subject to political considerations, the target of contributions, the product of "value of service" pricing, subject to concurrence in other Exchange Carrier local tariffs and often absent any knowledge of true costs, local rates are far from being

useable as a measure of affordability or reflective of true costs. The only true measure of affordability is the point above which customers will be forced to leave the network.

Accordingly, after the establishment of goals reflecting responsible levels of subscribership, affordability must be determined at the local level.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area be considered in determining the affordability and reasonable comparability of rates?

As indicated in the answer to 1, subscribership goals should be established and affordability then determined at the local level. Further, an indication of service value such as comparative usage per loop should be a consideration in the determination of support requirements. This is due to the fact that low local rates generally accompany lower usage. If usage can be stimulated as a result of lower access rates and larger calling areas, then revenues are increased and the dependency on support funding is decreased. Finally, the primary factor in the determination of support should be the presence of high costs. Such factors as income levels should be elements in Lifeline and Link-up forms of support. All of these concepts are included in the ITCs plan.

3. When making the "affordability" determination required by Section 254(i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model?

The unique characteristics of each service area across the country are such that use of benchmark rates is not appropriate in that they may not reflect what is "just, reasonable and affordable" in any given area. The end result will be the absence of affordability at the low end of the economic scale. In addition, any attempt to tie one or a series of benchmark rates to a

proxy model is also inappropriate and unrealistic in rural areas because of the wide differences that exist between and within rural serving areas. Finally, proxies represent a great opportunity to "game the system" and provide no incentive to invest for the achievement of universal service goals.

4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?

The heart of a successful competitive environment is a level playing field for all entities involved. Accordingly, to provide universal service funding to a competitive entity that can not provide core services can only create a disadvantage to those who can. Of equal concern is the impact on the consumer who may be denied core services. Therefore, universal service funding should not be provided to any entity that can not provide the required basic services. This approach assumes the nature of the core services is traditional and generally accepted as basic services. Should it be determined that the service element that can not be provided is beyond the scope of traditional basic service, then an implementation timetable may be appropriate.

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual cost of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definition of core services, identify and quantify other costs to be considered.

Two points need to be made. First, the situation described is no different than the present environment where each subscriber loop may well be different in cost, particularly in rural areas where the distance and density factors vary widely. Second, other costs may not be loop, related; they may also include switching and transport costs. Given these considerations, these services can be accommodated by 1) continued use of actual cost averages and, 2) expansion of the

process to include switching and transport costs as provided for in The Plan where all common line, switching and transport actual costs per loop are compared to like nationwide average costs to determine a current universal service allocation of costs.

Schools, Libraries, Health Care Providers

6. Should the services or functionalities eligible for discounts be specifically limited and identified or should the discount apply to all available services?

Discounts should be applied to any and all services that are necessary for, or enhance the capability of these institutions to meet their obligations to the communities they serve. This should include not only core services. Wideband and other forms of enhanced and advanced services should be included as well. In addition, as technology advances, the resulting services should also be included. However, the Commissions rules should include a prohibition against the resale of any discounted service provided to these institutions under universal service provisions of the 1996 Act.

7. Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service support of telecommunications services provided to schools and libraries? If so, what is the estimated cost of the inside wiring and other internal connections?

Because inside wiring has been detariffed and is now often installed and serviced by independent contractors, it is doubtful that Congress intended inclusion. Therefore, it should be excluded from the support process unless and until it can be established that these costs preclude institutions from participation without support. Should this happen, the provision and servicing responsibility should be delegated to the Local Exchange Carrier with support provided accordingly.

8. To what extent should the provisions of Sections 706 and 708 be considered by the Joint Board and be relied upon to provide advanced services to schools, libraries and health care providers?

First, the sources referenced do not have the resources necessary to meet the requirements set forth in the Act and second. the process of funding and distribution of support should be overseen and controlled by the regulatory body having jurisdiction. Therefore, these sources and provisions should not be relied upon for the type of support addressed in these proceedings but rather, they should be considered as a source for funding research, the development of teaching techniques and the terminal equipment and studios necessary to provide quality education in rural areas.

9. How can universal service support for schools, libraries, and health care providers be structured to promote competition?

The Act of 1996 references how the introduction of competition is to be managed and regulated in the urban and rural sectors. These references are excellent in that they are clear, concise and provide for a process that can be implemented without regulatory or administrative burden. Because these provisions apply to support for schools, libraries and health care providers, there should be no need for further considerations. Implementation of the Act's competitive provisions related to interconnection and universal service as written should be sufficient.

10. Should the resale prohibition in Section 254(h) (3) be construed to prohibit only the resale of services to the public for profit, and should it be construed so as to permit end user cost based fees for services? Would construction in this manner facilitate community networks and/or aggregation of purchasing power?

The prohibition referenced does go further than "resale...for profit" in that it concludes

with the phrase "for money or any other thing of value". This not to suggest that end user fees are not appropriate; they are and should be part of the charges subject to discount. Further, there is nothing in either interpretation that would prevent community networks or aggregation of purchasing power particularly if they will improve the cost effectiveness of providing these services and if the universal service funding process is fair and equitable.

11. If the answer to the first question in number 10 is "yes," should the discounts be available only for the traffic or network usage attributable to the educational entities that qualify for the Section 254 discounts?

Absolutely, the discount should be limited to only that related to the educational entity. Any other treatment would be non-competitive and discriminatory. Further, the costs associated with the provision of service to the institution must be separated from the costs of services provided to others in order to insure the proper application of discounts and the development of non-discriminatory pricing of services provided to others.

12. Should discounts be directed to the states in the form of block grants?

No, they should not. The level of discounts and the mechanisms for funding and distribution should be designed, developed and administered on a nationwide basis in order to insure consistency and equity between institutions and jurisdictions across the Nation.

13. Should discounts for schools, libraries, and health care providers take the form of direct billing credits for telecommunications services provided to eligible institutions?

There are two ways of handling billing. One alternative is to reflect on the bill the full tariff rate for the services provided along with the discount and the net billing due the Local Exchange Carrier from the institution. The second alternative is to bill the institution only the net amount which would be a post discount tariff rate. In either case, the Local Exchange Carrier

should receive the support amount directly from the funding process, not the institution.

14. If the discounts are disbursed as block grants to states or as direct billing credits for schools, libraries, and health care providers, what, if any, measure should be implemented to assure that the funds allocated for discounts are used for their intended purposes?

There are several different means by which this can be accomplished. Among them are, first, a certification statement provided by the institution indicating the nature of telecommunication services in use as a result of the discounted service rates. A second alternative would be to have a such a statement added to the certification provided under current regulations by the Local Exchange Carriers to NECA reflecting the nature of services provided to these institutions. Finally the Universal Service Fund administrator could include spot, random tests or audits to ensure compliance. These could take forms ranging from on-premises examinations to reviews of service order and billing records maintained by the providing Exchange Carrier.

15. What is the least administratively burdensome requirement that could be used to ensure that requests for supported telecommunications services are bona fide requests within the intent of section 254(h)?

First, copies of the requests could accompany the initial request for Universal Service Fund support to the Administrator by the Local Exchange Carrier. Second, an examination of bona fide requests could be incorporated into the Administrator's review process. Finally, the existence of these requests could well be part of the certification provided the Administrator as part of any periodic data request. The last alternative is the least burdensome.

16. What should be the base service prices to which discounts for schools and libraries are applied: (a) total service long-run incremental cost; (b) short-run incremental costs; (c) best commercially-available rate; (d) tariffed rate; (e) rate established through a competitively-bid

contract in which schools and libraries participate; (f) lowest of some group of the above; or (g) some other benchmark? How could the best commercially-available rate be ascertained, in light of the fact that many such rates may be established pursuant to confidential contractual arrangements?

Where competition is absent and full rate of return regulation prevails, then a tariffed rate based on fully distributed costs is consistent and equitable. However, given the direction of public policy, the need for pricing flexibility and the trend toward de-tariffed services, the use of a percent discount would not only facilitate the process, it would provide incentives for cost effectiveness on behalf of both the provider and the customer. Finally, should there be a need to establish a base price, the nationwide average could be considered. Under this scenario, all actual costs over that average plus the discount would be recovered from the universal service funding process.

17. How should discounts be applied, if at all, for schools and libraries and rural health care providers that are currently receiving special rates?

The discount provided under Section 254 of the Act should be applied to the full rate for the services provided. Should there remain a need to provide further support, the Act encourages the States to adopt rules "...not inconsistent with the Commissions rules..." which can be used to ensure the intent of the Act is realized. An approach such as this would permit consistency while eliminating the potential of duplicate discounts. (As a point of clarification, if there is already a discount in existence, then an additional discount should not simply be added to it.)

18. What states have established discount programs for telecommunications services provided to schools, libraries, and health care providers? Describe the programs, including the measurable outcomes and the associated costs.

This information is not available to this respondent and should be obtained either directly from Local Exchange Carriers or from State regulatory bodies.

19. Should an additional discount be given to schools and libraries located in rural, insular, high-cost and economically disadvantaged areas? What percentage of telecommunications services (e.g., Internet services) used by schools and libraries in such areas are or require toll calls?

Simply stated, and with emphasis, yes they should; the very essence of Section 254 is focused on ensuring services are provided to rural, insular and high cost areas. Further, the Act makes repeated references to "comparable" rates. Finally, public policy has certainly reflected an obligation to provide for the disadvantaged. However, as opposed to an additional discount, these types of situations should be provided for as part of the basic Universal Service Fund distribution process. A well conceived program which uses actual costs, nationwide averages and incorporates these types of services should ensure proper support is provided.

20. Should the Commission use some existing model to determine the degree to which a school is disadvantaged (e.g., Title I or the national school lunch program)? Which one? What, if any, modifications should the Commission make to that model?

Rarely do models ever apply to individual situations, particularly in rural America with its wide diversities. Further, recent court rulings have resulted in significant changes in the redistribution and equalization of educational funding. Accordingly, determinations of this nature along with appropriate remedial steps, should be left to the States.

21. Should the Commission use a sliding scale approach (i.e., along a continuum of need) or a step approach (e.g., the Lifeline assistance program or the national school lunch program) to allocate any additional consideration given to schools and libraries located in rural, insular, high-cost, and economically disadvantaged areas?

If the structure of future Universal Service Fund mechanisms have been designed developed and implemented as intended by the Act, there should be no need to consider additional steps unless or until it can be established that policy objectives are not being met.

22. Should separate funding mechanisms be established for schools and libraries and for rural health care providers?

While the process should involve common administration and distribution mechanisms, the requirements for schools, libraries and health care providers should be separately identified both in the funding and distribution process. This will permit the use of different formulas, the means by which oversight can occur and the identification of resources used or required at the local level.

23. Are the cost estimates contained in the McKinsey Report and NII KickStart Initiative an accurate funding estimate for the discount provisions for schools and libraries, assuming that tariffed rates are used as the base prices?

The appropriate level of discount is difficult to determine until the related service costs are developed. This takes time and can not begin until the services are defined. Accordingly, it is suggested that the Joint Board proceed cautiously or request some form of corroborating information. This is because in the absence of a definition of what is to be provided and discounted, what advanced services are to be included and the volume of anticipated traffic the end result can not be determined.

24. Are there other cost estimates available that can serve as the basis for establishing a funding estimate for the discount provisions applicable to schools and libraries and to rural health care providers?

There are none known to this respondent.

25. Are there any specific cost estimates that address the discount funding estimates for eligible private schools?

There are none known to this respondent.

High Cost Fund

General Questions

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

Should the existing process remain in place, there are several changes that are required. First, the services to be included initially must be defined and an implementation timetable established. (Sec. 254(a)(2)). Second, a mechanism for equitable and nondiscriminatory contributions must be defined and implemented. (Sec. 254(b)(4)). Third, the additional services to be provided to schools, libraries and health care providers should be determined. (Sec. 254(c)(3)). Fourth, the process must be expanded to include all forms of support inasmuch as all support must be explicit. (Sec. 254(e)). Fifth, the mechanism for schools, libraries and health care providers must be designed and implemented. (Sec. 254(h)). Sixth, steps to ensure that rates are just, reasonable and affordable, (Sec. 254(i)) and comparable, (Sec. 254(b)(3)) must be undertaken. The Plan filed with the initial comments submitted by ITCs in this proceeding will, with minimal effort, provide for the second, fourth and sixth items listed above and is not dependent on any of the other required changes.

27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

The Act of 1996 provides an excellent definition of a rural Local Exchange Carrier. This definition should be used in the process to delineate these carriers and apply the present day structure modified to meet the Act's terms. The remaining Exchange Carriers should be examined on a comparable with universal service support then applied on the same basis as rural Exchange Carriers.

28. What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?

The need for a surrogate of this nature is not necessary nor is it appropriate. First, actual costs should be known at the time universal service support data is required. This, coupled with periodic updates should be sufficient to ensure timely compensation. Second, there must be some indication that the conditions of eligibility are being met before support is provided. If not, a new entrant could provide only low cost services leaving the provision of service to all in a serving area up to the incumbent (or the courts). What is important here to all providers is that Universal Service Fund payments be made on a current basis, i.e., not delayed, or paid on the basis of two year old data. As recommended in the ITCs Plan, allocating actual costs to a Universal Service Fund "jurisdiction" at the same time costs are separated between State and Interstate operations, subject to a true-up of estimates, will be a significant improvement that permits the availability of funds at the point in time the costs are incurred. Because it is current, it will also contribute to universal service objectives in that there will be no incentive to delay service installation or improvement in high cost areas.

29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?

Price cap companies should be eligible for support, first, because they do incur high costs in some of the rural areas they serve and second, because as they are faced with competition in their urban and business markets, they will no longer be able to price services in a manner that allows them to remain competitive and still provide support for their rural areas through price

averaging. In terms of structure, it may well be necessary to implement rules that are different for price cap carriers. Specifically, there may need to be some form of cost allocation of "corporate" costs or of costs that are shared between geographical areas. Other minor changes may also be required; however, the nature of any of these or other required alterations which may be required should in no way affect the requirements for pro-competitive and nondiscriminatory operating environments. In addition, the resulting support should not differ materially from that of other recipients serving like areas.

30. If price cap companies are not eligible for support or receive high-cost support on a different basis than other carriers, what should be the definition of a "price cap" company? Would companies participating in a state, but not a federal, price cap plan be deemed price cap companies? Should there be a distinction between carriers operating under price caps and carriers that have agreed, for a specified period of time, to limit increased in some or all rates as part of a "social contract" regulatory approach?

As indicated above, it is the opinion of ITCs that price cap companies should receive support in those geographical areas where costs warrant support and it may well be necessary to make some adjustments to the process to facilitate the process. The appropriate definition of a price cap company should not be any different than that contained in within the existing Part 61 of Title 47 C. F. R. Any alteration of that is unnecessary. Those carriers operating as price cap companies only at the Federal level should be considered such for this purpose. Finally, there should be a distinction between price cap companies and those companies that remain on Rate of Return regulation but have agreed to limit rate increases. If, and only if, bifurcation of the universal service funding program is necessary, the only differentiation should be price cap vs. rate of return regulation and then only to the degree necessary to implement the process in accordance with the provisions of the 1996 Act. Of note in this regard is the fact that the Joint

Board or the Commission might find that agreements to limit rate increases are not be in concert with provisions of the Act and may need to be altered accordingly. It is ITCs opinion that should the need arise, it is within the authority of the Commission to request such a change.

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?

The definition of a rural telephone company contained in the Act (Section. 3 (a)(47)(47 U.S.C. 153 as amended)) is an excellent description of what Congress intended in establishing the distinction between Exchange Carriers. This definition needs no clarification or alteration and should be used in these proceedings.

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

No, they should not. As discussed earlier, the high degree of cost variability that exists between and among rural telephone companies is significant to the degree that a proxy approach (in their present form and degree of sophistication) will either under or overcompensate too many rural carriers. In addition, proxies do not provide incentives to invest; as a consequence support could be provided yet the consumer is left with inadequate service. Further, there should be no transition because there is no solution to this dilemma. It remains ITCs position that there is no adequate substitute for actual costs for incumbents as well as new entrants and that support should be provided when the corresponding services are provided to customers. Finally, while discussed in greater detail below, as a matter of record, ITCs opposes the concept of competitive bidding in any form. The concept is not compatible with the means by which universal service is

provided; that is, through long range planning, construction, adequate rates and support. If, during the cycle, the process is interruptible, investment capital will not be available, new plant will not be installed, embedded plant costs will not be recovered and the goals of universal service will not be met.

33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting subsidies?

Regardless of the method used, all Exchange Carriers that are eligible should receive appropriate levels of support. In fact, it would appear that in areas of low subscription, there should be even greater support if that is what is required to extend the network to those that, for whatever reason are denied access today. Finally, in the absence of support, the only alternative left to an Exchange Carrier is to raise local rates which is not generally prescribed as a solution or low subscription.

34. What, if any, programs (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

First, all forms of support including DEM weighting, Long Term Support, RIC charges and the traditional Business - Residence and Urban - Rural differentials must be incorporated (or eliminated) if all provisions of the 1996 Act are to be fully implemented. Second, the present Lifeline and Link-up programs must also be continued. All of these are considered and accounted for in The Plan developed by ITCs.

35. US West has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data," US West comments at 10. Comment on US West's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint's Board's recommended decision.

By no means has there been enough research, refinement, testing and trials of a process of this nature to consider it as a sound alternative, particularly in the rural environment. It is not at all uncommon for a rural Census Block to be 3 times the size of Washington, D.C. In addition, with actual costs available, they should be used with any problems inherent in their use resolved by other means. It also seems that any process that in any way impairs an Exchange Carriers ability to provide for universal services or that opens the doors of inequity will find its way through the legal process with, as yet, unknown results. Accordingly, and with all due respect for US West, such a statement could only have been made after extensive consumption of that the causes one to break with reality.

36. What proposals, if any, have been considered by interested parties to harmonize the differences among the various proxy cost proposals? What results have been achieved?

There are none known to ITCs; however, ITCs would gladly participate should such activity be taking place and be in need of assistance.

37. How does a proxy model determine costs for providing only the defined universal service core services?

This and several of the questions which follow characterize the very core of the problems with the use of proxies in lieu of actual costs, particularly in rural areas. As demonstrated by the present Universal Service Fund process, any use of a surrogate will only serve the causes of inconsistency and inequity. It would appear far more logical to address the problems that have led to the conclusion that proxies are advantageous and determine what other means are available to correct any perceived deficiencies.

38. How should a proxy model evolve to account for changes in the definition of core services

or in the technical capabilities of various types of facilities?

This could only be accomplished through continual research, testing and update of the basic mathematical formulas used in the process. This points out an additional difficulty in that modifications of universal service definitions and the corresponding changes to a proxy model may not coincide with the availability of services in any given Exchange Carrier. This can only result in either under or over compensation.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in section 254(b) of the Act? If so, how should this occur?

If proxies are to be used at all, they must be such that all provisions of the Act related to universal service would have to be included if the model is to be a surrogate for cost in a formula determining distribution of support. The only other alternative known to ITCs would be to develop a model in much the same way Average Schedule settlements take place today wherein those formulas applicable to a specific Exchange Carrier are applied in determining the settlement due that carrier.

40. If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 Act.

This can be accomplished by ensuring that all costs above those associated with urban areas are recovered through a universal service mechanism. The cost not assigned for recovery through universal service funding would be subject recovery through traditional means. Being the same as those in low cost areas assures comparability between all sectors. Note that this very concept is at the heart of The Plan submitted by ITCs in that all costs over and above a usage adjusted nationwide average are assigned to a USF jurisdiction. As shown in the detail

accompanying that proposal, access and local rates are stabilized at levels that are reasonably comparable.

41. How should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy model?

The Alaska situation is a clear cut example of the wide diversity in costs that must be considered in the design of any future mechanism. It is clearly a reason for the use of actual costs among all entities if equity and consistency are to be achieved.

42. Will support calculated using a proxy model provide sufficient incentive to support infrastructure development and maintain quality service?

It is not only possible, but probable that a proxy model, at least in their current stage of development will prejudice high cost companies because in their present state they do not consider any of the factors that drive costs in rural small Exchange Carriers. An example is the age of existing plant. Thus far, ITCs has been unable to ensure that any proposal contains this element which is a major driving force in the level of maintenance expense consumed in providing service. A second example is the presence of a minimum floor of costs under which there is no alternative or means of lowering costs. This particularly true in very small Exchange Carriers where there are very few employees.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

Should this concept be extended to rural constituencies, the issue raised here is particularly relevant in that given the state of the art, this can be expected with some frequency.

Unless there is a desire to have universal service policy interpreted by the judicial branch of the government, there must be recourse in any instance the model produces an inequitable result.

Given the importance of support to so many entities and to the success of National communications policy, being "almost right" should not be sufficient nor should the door to manipulation be open even the slightest. Accordingly the standard involved should be a requirement to use actual costs

44. How can a proxy model be modified to accommodate technological neutrality?

ITCs knows of no way to accommodate the dramatic advances in technological capability nor is there a model known that can predict future changes. The decisions and accommodations, at least initially, must remain with the management of each Exchange Carrier with the emphasis of the universal service program focusing on affordability and availability of service at comparable prices. As the march of technology lowers costs, the need for support in order to reach service objectives will diminish or, as new services become "core" in nature, support will remain the vehicle that ensures that high cost areas will be able to contribute to the success of universal service policy.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

By no means should any model that will ultimately dictate revenues that are vital to the survival of many Exchange Carriers be based on something known only to the author or a small select group of participants. In addition, regulatory oversight, administrative consistency, and the need for a pro-competitive environment all dictate a need to know the basis upon which support is being disbursed.

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?

While all of the detailed underlying data need not be provided for public and competitive scrutiny, enough data must be available to ensure the integrity of the process. This can take the form of summary level information and relationships that are key to the process. An example is the data currently provided to Federal and State regulators concerning present day USF. In this case, enough data is provided to provide for oversight, yet detailed underlying information is not disclosed.

47. If it is determined that proprietary data should not be employed in the proxy model, are there adequate data publicly available on current book costs to develop a proxy model? If so, identify the source(s) of such data.

Summary level information is often available in annual reports to stockholders, members of co-operatives, and other lenders and could be used for this purpose. Also, as mentioned above, the use of relationships may also provide an alternative.

48. Should the materiality and potential importance of proprietary information be considered in evaluating the various models?

Given the pro-competitive thrust of public policy, the importance of proprietary information is greater than ever before and must be a consideration in designing future mechanisms. In this regard there are two concepts that may be of assistance. First, in the present environment, the administrator of the process has access to detailed Exchange Carrier information that is proprietary in nature. With that information the administrator is able to execute the process without disclosure yet in a manner that is acceptable to all parties involved. Further, the same administrator gathers data for the preparation of Average Schedule formulas.

Is it reasonable to expect the administrator to prepare and update proxy information in a manner that will not compromise either any participant or the process?

Competitive Bidding

49. How would high-cost payments be determined under a system of competitive bidding in areas with no competition?

First and foremost, competitive bidding is not consistent with the 1996 Act in that the result of any form of auction will not fulfill the requirement of "predictable" support, and, in addition, there is no known provision in the Act for an auction or bidding approach for the distribution of universal service contributions. Further, rural areas should not be subject to competitive bidding given the exemption and eligibility provisions of the Act. Given this, and as stated earlier, there is no substitute for actual costs as a basis for determining universal service support, particularly in rural areas. In areas where multiple eligible carriers are present, each should receive support if their costs warrant. Note: The position stated herein concerning the concept of competitive bidding should not be subject to prejudice by virtue of the answers to questions 50 through 55.

50. How should a bidding system be structured in order to provide incentives for carriers to compete to submit the low bid for universal service support?

First, controls should be left to the market place and the current body of law that is used to ensure integrity in the process. There should be no further need for a "policing" effort. Further, this very question gives rise to the point that a bidding process is simply not compatible with something that is embedded in nature and monopolistic in origin. A bidding process worked reasonably well with PCS where there was no vested interest; however, here there is an interest due to the investment that is already in place and must be compensated for if a bidding